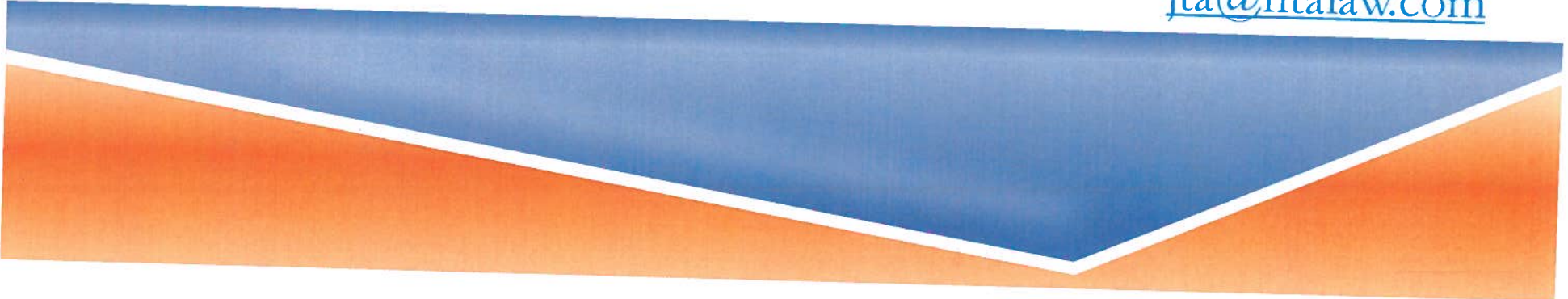




MICHIGAN ASSOCIATION OF HEALTH PLANS

HOUSE INSURANCE COMMITTEE
SENATE BILLS 1293 & 1294
NOVEMBER 19, 2012

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TODAY'S FOCUS

- ▶ Medigap and Other Senior Issues
- ▶ Attorney General Oversight and Responsibility
- ▶ Rate Setting and Review Changes

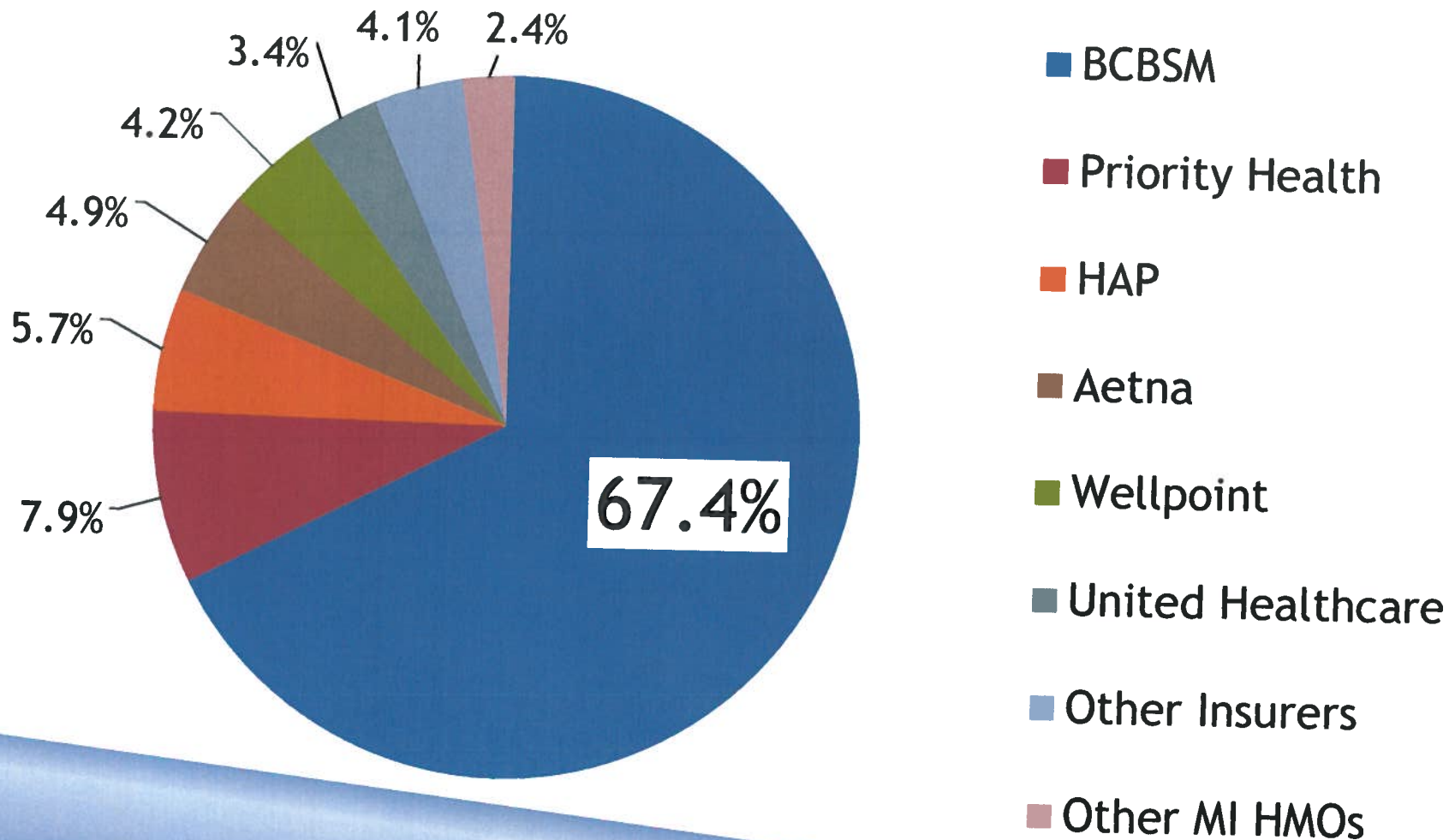
CONTEXT

- ▶ Market share
- ▶ Profitability
- ▶ Surplus Accumulation
- ▶ Enrollment

AMERICAN MEDICAL ASSOCIATION STUDY: MICHIGAN IS 4TH WORST

	<u>BCBSM</u>	<u>Other</u>
Ann Arbor	80%	7% (HAP)
Detroit-Livonia-Dearborn	55%	26% (HAP)
Flint	68%	16% (HealthPlus)
Grand Rapids-Wyoming	65%	22% (Priority)
Jackson	85%	7% (Aetna)
Kalamazoo-Portage	74%	15% (United)
Lansing-East Lansing	67%	12% (PHP)/12% (Priority)

BLUE CROSS IS NEARLY **10 TIMES LARGER** THAN ITS NEXT CLOSEST COMPETITOR



BLUE CROSS FINANCIAL POSITION

- ▶ Over the past five years, BCBSM and BCN have earned nearly \$700 million (pre-tax):

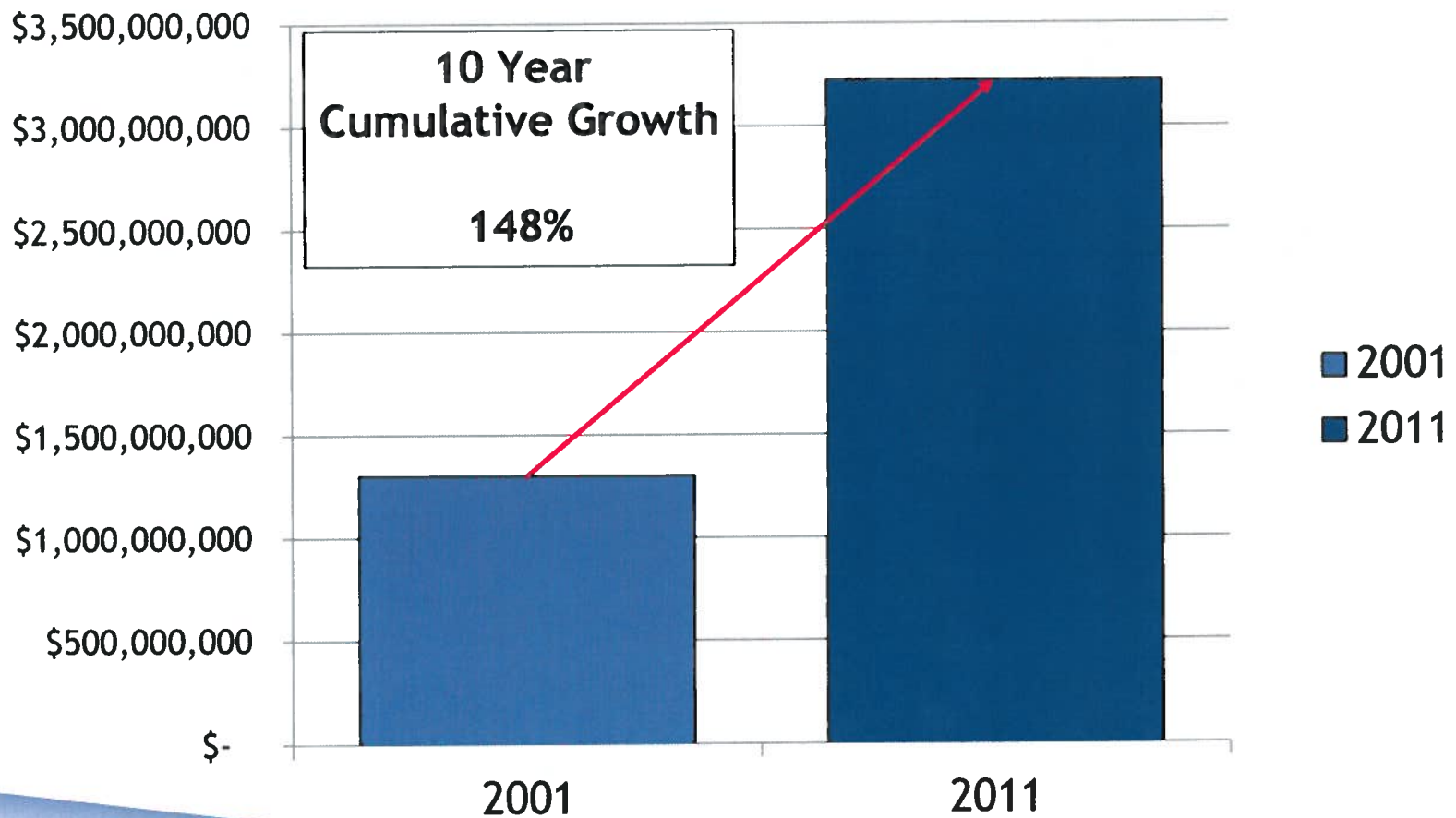
	BCBSM	BCN	Total
2007	-24.7	49.9	25.2
2008	27.7	85.8	113.5
2009	-11.8	62.6	50.8
2010	114.1	104.2	218.3
2011	114.4	163.9	278.3
			<u>\$686.1</u>

0.3% margin



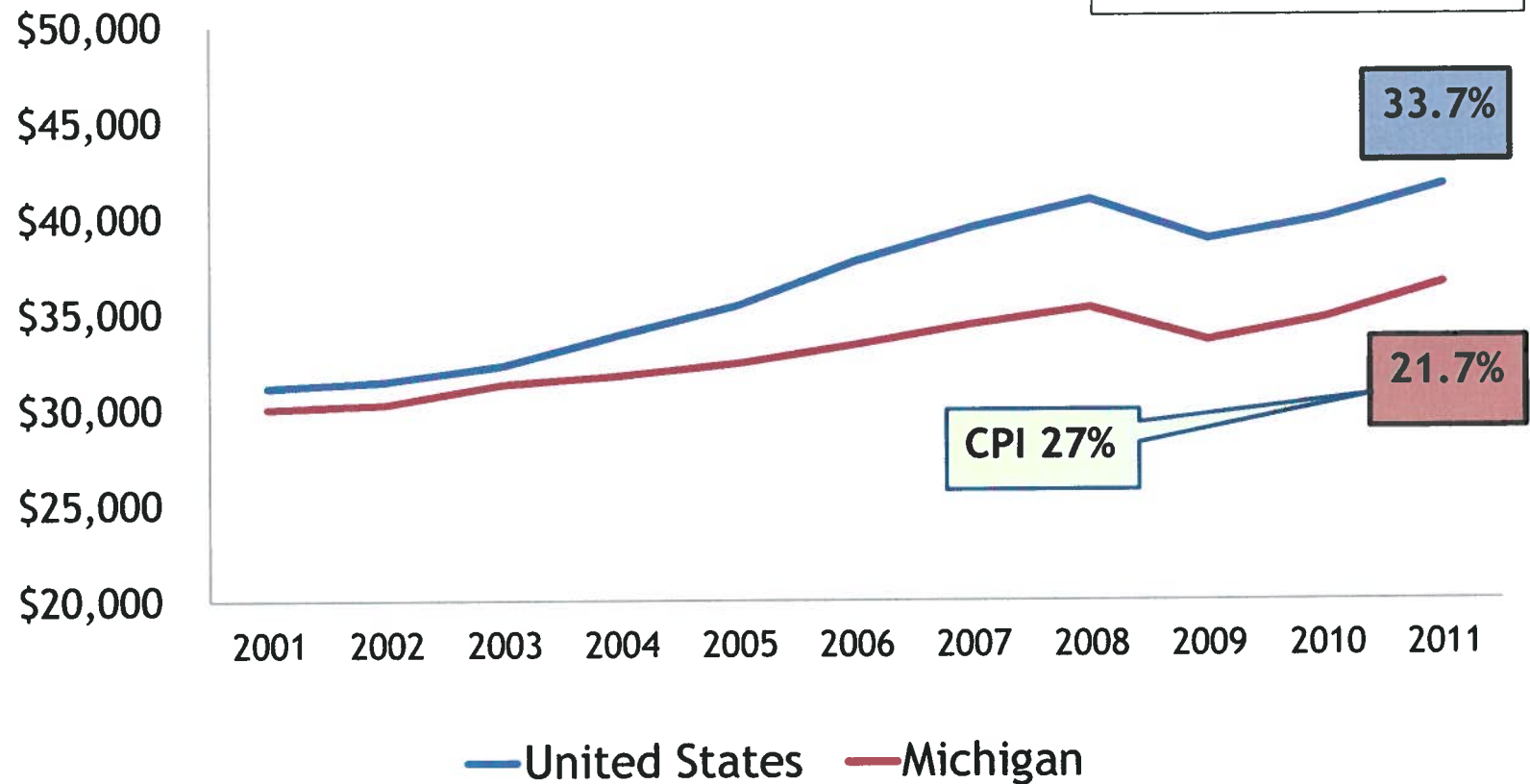
3.1% margin

BCBSM SURPLUS



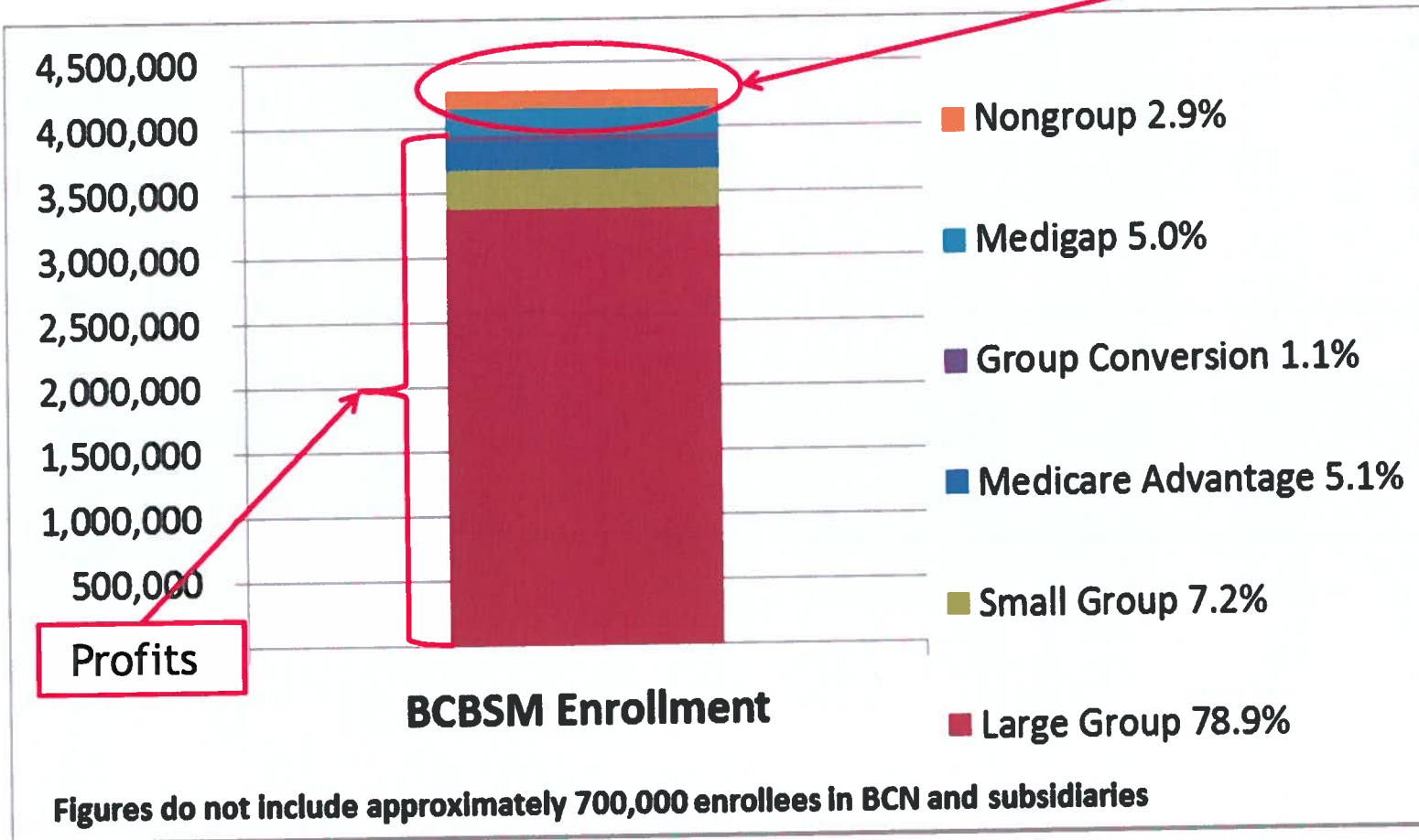
PER CAPITA INCOME

10 Year
Cumulative Growth



BCBSM ENROLLMENT

Losses



MEDIGAP AND OTHER SENIOR ISSUES

- ▶ Medigap subsidy
- ▶ Profits on senior business
- ▶ Foundation subsidy
- ▶ Future Medigap rating

MEDIGAP SUBSIDY

- ▶ PA 350 provides

“Cost transfers for the benefit of senior citizens, in the aggregate, annually shall not exceed 1% of the earned subscription income of the health care corporation”

- ▶ Subsidy is based on earned subscription income, even if BCBSM is not able to fully collect the subsidy

- ▶ In 2011, 1% of the earned subscription income was **\$170.7 million**

- ▶ BCBSM only collected **\$65 million**

BLUE CROSS MAKES MONEY ON SENIORS

- ▶ In 2011, BCBSM reported a loss of **\$150.5 million** on Medigap
 - ▶ This loss was more than offset by
 - ▶ Uncollected subsidies **\$105.7 million**
 - ▶ Medicare Advantage profits **\$ 49.4 million**
- \$155.1 million**

Similar results in 2010 and 2009

FOUNDATION SUBSIDY HAS LIMITED VALUE

- ▶ Under SB 1294, 60% of annual amount available for distribution is to be used to subsidize Medigap premiums
- ▶ Only 50% of annual Foundation funding is available for distribution, thus amount available to subsidize Medigap is **30%** (60% x 50%)
- ▶ If \$1.5 billion contribution to Foundation is paid in equal annual installments, this amounts to \$83.3 million per year
- ▶ Amount available for Medigap subsidy would be approximately **\$25 million** (30% x \$83.3 million)

FOUNDATION SUBSIDY HAS LIMITED VALUE

- ▶ An estimated \$25 million of Foundation subsidy compares to the \$170.7 million available today (1% of 2011 earned subscription income)
- ▶ The Foundation subsidy has a limited duration
 - ▶ Six years beginning January 1, 2016

FOUNDATION SUBSIDY HAS LIMITED VALUE

- ▶ Foundation subsidy is limited by means testing
 - ▶ BCBSM subsidy is not so limited
- ▶ If Medigap premiums rise **\$145.7 million** (the difference between the current subsidy and the Foundation subsidy), this will raise premiums by **50%**
 - ▶ Escalating premium cost, plus new Michigan pension tax, will be very burdensome for Michigan seniors
 - ▶ 46% of Michigan seniors have incomes below 200% of the federal poverty limit

FUTURE MEDIGAP RATING

- ▶ As a mutual insurer and no longer burdened by the obligation as the insurer of last resort, BCBSM will be able to **reject Medigap applicants** based on their age or health status (other than during specified open enrollment or guaranteed issue periods)*
- ▶ BCBSM will also be able to make older applicants pay more than younger applicants: **loss of community rating***
- ▶ Potential strategy to drive business to Medicare Advantage?
 - ▶ Over the past two years, BCBSM and BCN have had profits in excess of **\$260 million** on Medicare Advantage

*Does not apply during first four years, due to Agreement with Attorney General

ATTORNEY GENERAL OVERSIGHT AND RESPONSIBILITY

- ▶ Role under PA 350
- ▶ Actions to protect public interest
- ▶ Subsequent sale or conversion
- ▶ Impact if merger does not occur

ATTORNEY GENERAL OVERSIGHT

- ▶ AG role under PA 350 based on two unique factors:
 - ▶ BCBSM is a **charitable trust** and must act in the best interests of the beneficiaries (the residents of the state of Michigan)
 - ▶ BCBSM commands **67-70% of the market**, thus creating risk that market power is abused and harms insurance buyers and providers

ATTORNEY GENERAL OVERSIGHT

- ▶ As a nonprofit mutual insurer, the regulation is different, but the need for AG oversight is not:
 - ▶ BCBSM will still be holding **charitable trust assets**
 - ▶ If BCBSM claims that it is not, then BCBSM must pay fair value for all assets transferred (far in excess of the \$1.5 billion Foundation payment)
 - ▶ SB 1293 should be amended to make it clear that BCBSM remains a “charitable and benevolent institution”
 - ▶ BCBSM will still command **67-70% of the market**

ATTORNEY GENERAL OVERSIGHT

- ▶ PA 350 Provisions (not found in Insurance Code)
 - ▶ Review and approval of Bylaws and any amendments
 - ▶ Review and approval of insurance company acquisitions
 - ▶ Ability to compel production of books and records
 - ▶ Ability to challenge or set aside unauthorized transactions
 - ▶ Ability to challenge premium rates and “provider class plans” (contracts and reimbursement arrangements with providers)
 - ▶ Ability to seek injunctive relief for statutory violations

ATTORNEY GENERAL OVERSIGHT

- ▶ Recent actions benefitting the public interest
 - ▶ Challenged the transfer of \$125 million from BCBSM to the Accident Fund so that the Accident Fund could buy an out of state insurer
 - ▶ Questioned the propriety of BCBSM's planned minority investment (\$200M) in AmeriHealth Mercy, an out of state Medicaid plan
 - ▶ 5 year Medigap rate freeze agreement

ATTORNEY GENERAL OVERSIGHT

- ▶ Recent actions benefitting the public interest
 - ▶ Challenges to proposed premium rate increases for **Medigap, Nongroup** and **Group Conversion**, saving residents hundreds of millions of dollars
 - ▶ Medigap affects fixed income seniors
 - ▶ Nongroup and Group Conversion involve individual policies purchased with after-tax dollars
 - ▶ Nongroup involves **insurer of last resort** business

ATTORNEY GENERAL OVERSIGHT

- ▶ SB 1293 attempts to protect against subsequent sales or conversions of BCBSM, referred to by the AG as the **Security Provision**
 - ▶ Risk of future legislative amendments to water down or change prohibitions
 - ▶ PA 350 prohibits mutualization today, yet that is actually what is being proposed in the current bills
 - ▶ The Security Provision does not protect against forming a subsidiary, transferring business to that subsidiary and then selling the subsidiary or taking it public

ATTORNEY GENERAL OVERSIGHT

“Another avenue to effectively turn BCBSM into a for-profit company would be the creation or acquisition of a subsidiary for-profit insurer.... The net effect could be the transfer of many or all of the company’s assets to this new for-profit entity, leaving the current BCBSM as nothing more than a shell and effectively creating a new company within the for-profit subsidiary. This scenario is more than idle speculation as this approach recently was pursued by Blues plans in Pennsylvania, Washington, Wisconsin, Utah, Oregon, and Idaho.”

Former Insurance Commissioner Frank Fitzgerald (2002)

ATTORNEY GENERAL OVERSIGHT

- ▶ SB 1294 amends PA 350. Among other things, it eliminates the role of the AG in future premium rates established by BCBSM.
- ▶ SB 1294 does not eliminate the PA 350 tax-exemption
- ▶ Consequently, if the BCBSM Board does not vote to merge into a nonprofit mutual, the following would happen:
 - ▶ BCBSM would **remain tax-exempt** even though all carriers will be insurers of last resort effective January 1, 2014
 - ▶ BCBSM would **avoid AG challenges** to premium rate increases
 - ▶ BCBSM would **avoid Foundation contributions**
- ▶ This risk is not addressed by the Security Provision

PREMIUM RATE SETTING

- ▶ As a nonprofit mutual insurer, BCBSM will be able to charge **inadequate premium rates**, thus driving out competition
 - ▶ PA 350 forbids BCBSM from establishing rates that are not adequate to cover its costs; there is not a similar prohibition in the Insurance Code
- ▶ As a nonprofit mutual insurer, BCBSM will be able to charge **excessive premium rates** without having to contend with rate hearings
 - ▶ PA 350 allows the Insurance Commissioner, the Attorney General and subscribers to seek a rate hearing if rates are excessive

PREMIUM RATE SETTING

- ▶ Rate hearings have been successful in challenging rate increases. Some examples:

Year	Proposed Increase	Actual Increase	Product	Savings
2007	50.30%	19%	Medigap	\$70 million annually
2009	55.60%	22%	Nongroup	\$88 million annually
2009	39.20%	22%	Group Conversion	\$30 million annually

PREMIUM RATE SETTING

- ▶ Important aspects of rate hearings:
 - ▶ Limited to Medigap, Nongroup and Group Conversion (collectively representing 9% of enrollment); there have not been rate hearings for the other 91% of enrollment
 - ▶ Although there can be delays due to rate hearings, these are offset by the ability of BCBSM to obtain **interim rate** increases
 - ▶ BCBSM can make filings for **new products** without having to go through the rate hearing process
 - ▶ Approved within 30 days
 - ▶ Not every filing generates a rate hearing: over the past year, there have been at least 7 rate filings that have been approved within 30 days

PREMIUM RATE SETTING

- ▶ PA 350 allows expedited implementation of new certificates and rates; it also has a special exception for mandated benefit changes

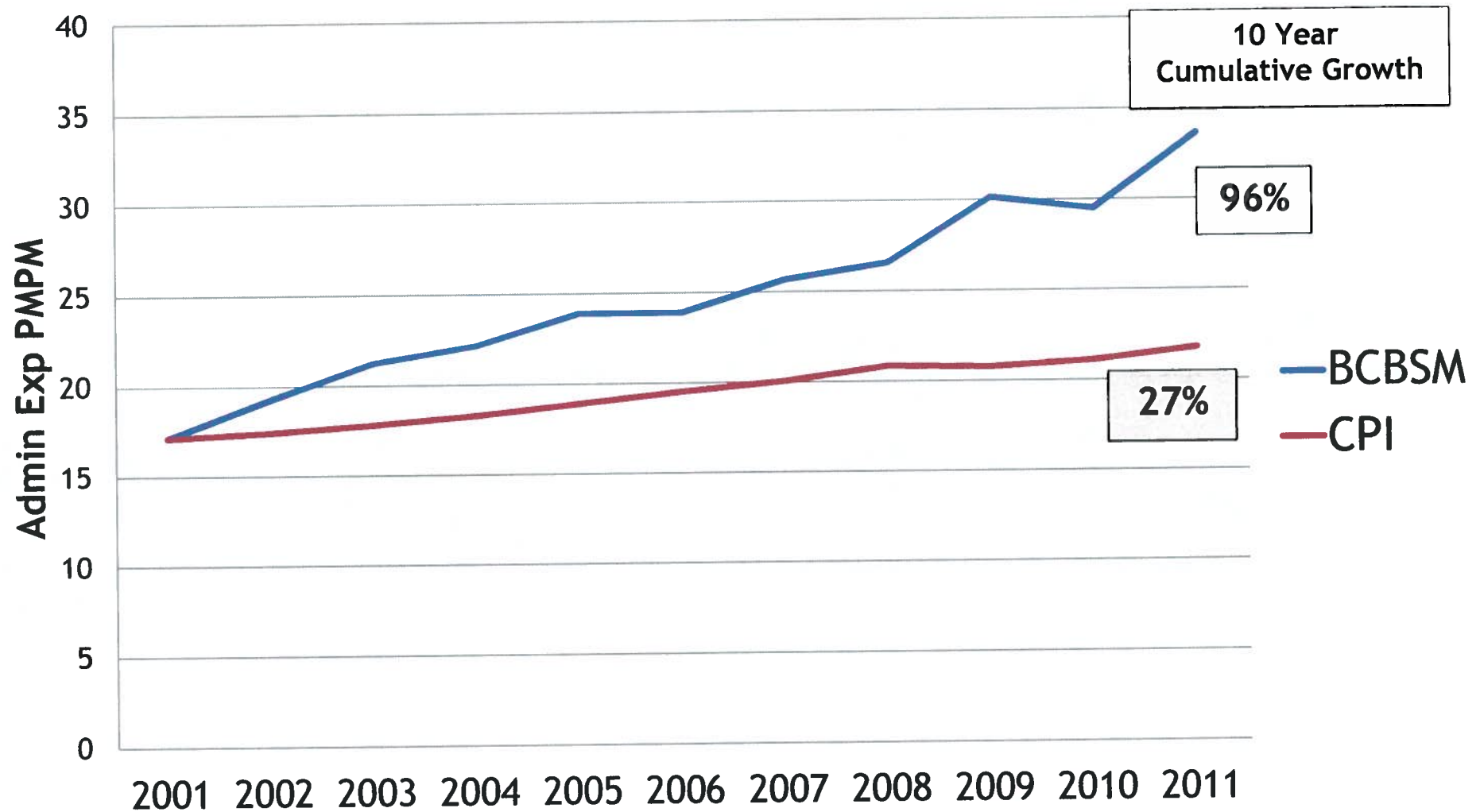
“Upon request by a health care corporation, the commissioner may allow certificates and rates to be implemented prior to filing to allow implementation of a new certificate on the date requested.” (Section 1607)

“Upon request by a health care corporation, the commissioner may allow rate adjustments to become effective prior to approval, for federal or state mandated benefit changes.” (Section 1608)

PREMIUM RATE SETTING

- ▶ Under PA 350, various standards are in place in assessing whether a rate is adequate or excessive (not present in Insurance Code)
- ▶ These standards include a review of
 - ▶ **Administrative expenses**
 - ▶ **Surplus**
- ▶ Over the past 10 years, BCBSM administrative expenses have grown nearly four times the rate of inflation

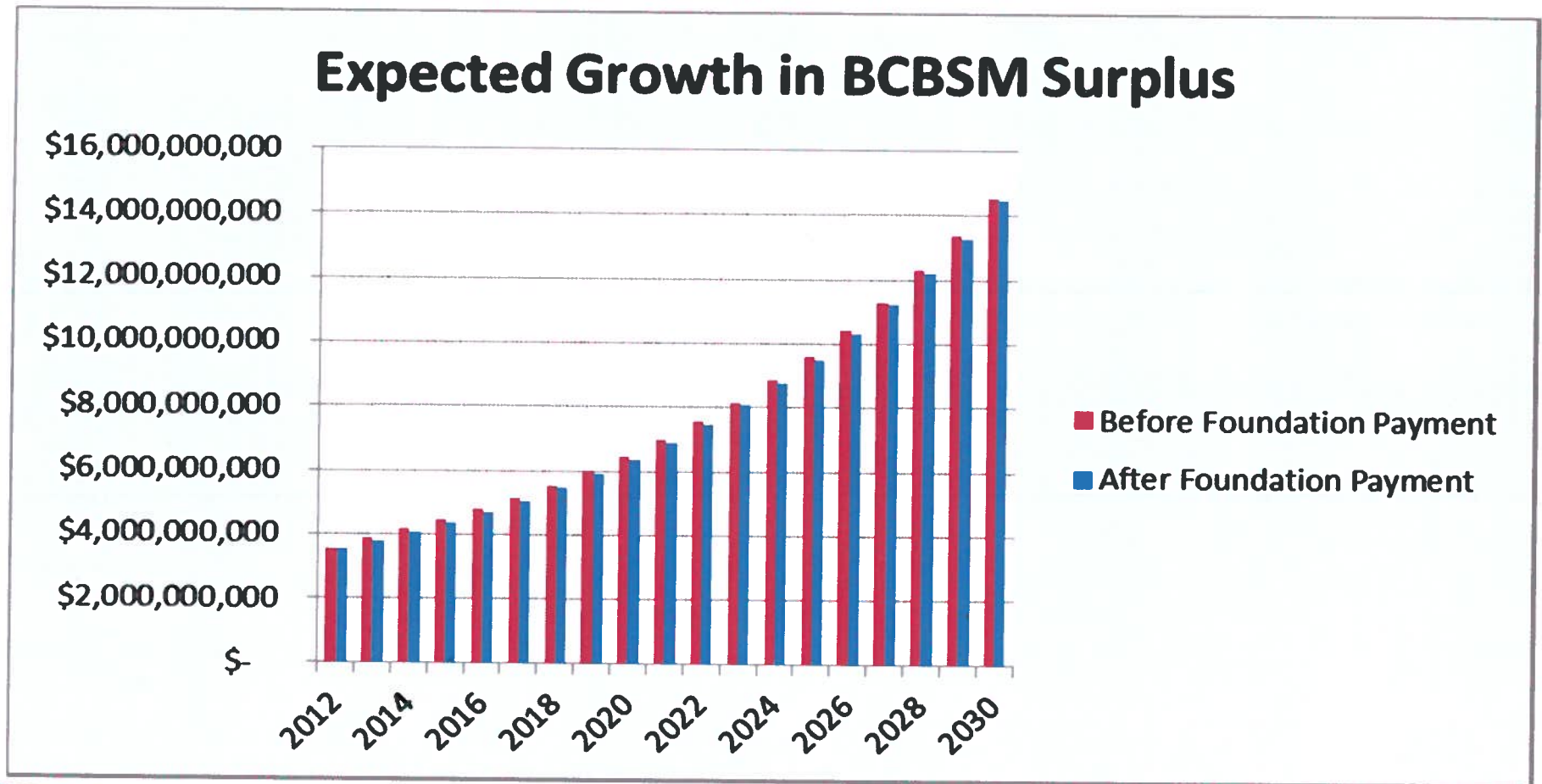
GROWTH IN BCBSM ADMINISTRATIVE EXPENSES



PREMIUM RATE SETTING

- ▶ Over the past 18 years, BCBSM surplus has grown at an annual rate of 9.5%
- ▶ If this rate continues for the next 18 years, BCBSM is expected to have a surplus of \$14.5 billion at year-end 2030 even after making the Foundation payments

PREMIUM RATE SETTING



Based on historical growth rate of BCBSM surplus (9.5% annually)

PREMIUM RATE SETTING

- ▶ BCBSM incurs losses in providing Nongroup coverage
- ▶ The Nongroup segment is the only segment involving insurer of last resort business
- ▶ In its 2010 premium rate filing, BCBSM indicated that it lost \$182.4 million over 10 years (2000-2009)
- ▶ During that 10 years period, the value of the BCBSM tax-exemption was likely in the range of \$80-100 million annually:

Nongroup losses - 10 years:

\$182.4 million

Tax-exemption benefit - 10 years:

\$800 million to \$1.0 billion

PREMIUM RATE SETTING

- ▶ BCBSM often asserts that its for-profit subsidiaries help it keep health insurance premiums low
- ▶ In reality, Accident Fund and LifeSecure have incurred considerable losses over the past 5 years:
- ▶ Net Losses: (\$47.3M)
- ▶ Capital Contributions from BCBSM: (\$159.5 M)
- ▶ Dividends Paid to BCBSM: \$ -0-

SOURCE MATERIAL

Slide	Source
4	AMA: Competition in Health Insurance: A comprehensive study of U.S. markets (2011 Update)
5	HealthLeaders InterStudy 2010 Michigan Health Plan Analysis
6	2007-2011 Annual Statements of BCBSM and BCN
7	2001 and 2011 Consolidated Audited Financial Statements of BCBSM
8	U.S. Department of Commerce, Bureau of Economic Analysis, Table SA1-3 U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index, All Urban, Series CUUR000
9	BCBSM December 2011 Monthly Financial Reporting Package filed with OFIR
11	BCBSM December 2011 Monthly Financial Reporting Package filed with OFIR
12	BCBSM December 2011 Monthly Financial Reporting Package filed with OFIR
	2011 BCBSM Annual Statement
15	2011 BCBSM Annual Statement (Medigap premium volume) Kaiser Family Foundation, State Health Facts, Medicare Beneficiary Demographics available at http://www.statehealthfacts.org/profileind.jsp?cmprgn=1&cat=6&rqn=24&ind=295&sub=75
16	2010 and 2011 BCBSM and BCN Annual Statements
27	OFIR Orders and Settlement Stipulations
31	Membership from BCBSM Management Discussion and Analysis (2001-2011) Administrative expenses from BCBSM Annual Statements (2001-2011) U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index, All Urban, Series CUUR000
32	Analysis of Consolidated Surplus reported in 1994 and 2011 Audited Financial Statements of BCBSM
33	Assumes Foundation contribution is paid in equal annual installments
34	2010 Nongroup Legacy Rate Filing Tax-exemption estimates from Anderson Economic Group report (Nov 2007) and Senate Fiscal Agency analysis (April 2008)
35	Net losses reported in BCBSM Management Discussion and Analysis (2007-2011) Capital contributions and dividends reported in BCBSM Annual Statements, Schedule Y (2007-2011)